

KEOKUK COMMUNITY SCHOOL DISTRICT
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2007

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Keokuk Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
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**Board of Education
(Before September 2006 Election)**

Julia Logan	President	2006
Sandy Stark	Vice President	2008
David Hotop	Board Member	2008
Tyler McGhghy	Board Member	2006
Brian Richardson	Board Member	2006
Jim Vandenberg	Board Member	2007
Brent Gatton	Board Member	2007

**Board of Education
(After September 2006 Election)**

Jim Vandenberg	President	2007
Sandy Stark	Vice President	2008
Brent Gatton	Board Member	2007
David Hotop	Board Member (Deceased)	2008
Tyler McGhghy	Board Member	2009
Julia Logan	Board Member	2009
Tom Wemette	Board Member (Deceased)	2009
Dave Barrett	Board Member (Appointed)	2007
Brian Richardson	Board Member (Appointed)	2007

School Officials

Jane Babcock	Superintendent	2007
Greg Reynolds	District Secretary/Treasurer and Business Manager	2007
Nyemaster, Goode, Voigts, West, Hansell & O'Brien, P.C.	Attorney	2007
Dorsey & Whitney, LLP	Attorney	2007
James F. Dennis	Attorney	2007

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3040
Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Keokuk Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Keokuk Community School District, Keokuk, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Keokuk Community School District at June 30, 2007, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated March 26, 2008 on our consideration of Keokuk Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13 and 36 through 37 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board.

Members American Institute & Iowa Society of Certified Public Accountants

We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Keokuk Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for three years ended June 30, 2006 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. The supplementary information included in Schedules 1 through 6, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script, reading "Nolte, Cornman & Johnson". The signature is written in dark ink and is positioned above the firm's name.

NOLTE, CORNMAN & JOHNSON, P.C.

March 26, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

Keokuk Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2007. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2007 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$18,862,005 in fiscal 2006 to \$19,512,242 in fiscal 2007, while General Fund expenditures increased from \$18,752,076 in fiscal 2006 to \$18,706,203 in fiscal 2007. This resulted in an increase in the District's General Fund balance from \$3,961,482 in fiscal 2006 to a balance of \$4,791,766 in fiscal 2007, a 20.96% increase from the prior year.
- The increase in General Fund revenues was attributable to an increase in state grant revenue in fiscal 2007. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits.
- Capital expenditures of \$498,588 were made in fiscal 2007 to upgrade the electric panels at the high school, resurface the track and purchase two buses. Other projects included the completion of entrance additions at the high school and start remodeling of the high school kitchen.
- The School Nutrition Fund provides services to the Midwest Academy consisting of three meals a day for each student attending. The District is closely monitoring this fund balance to ensure that chargeable costs are appropriate.
- This is the 5th consecutive year that the school district ended its year with a positive special education balance.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Keokuk Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Keokuk Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Keokuk Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor funds. In addition, the Schedule of Expenditures of Federal Awards provides detail of various programs benefiting the District.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1
Keokuk Community School District Annual Financial Report

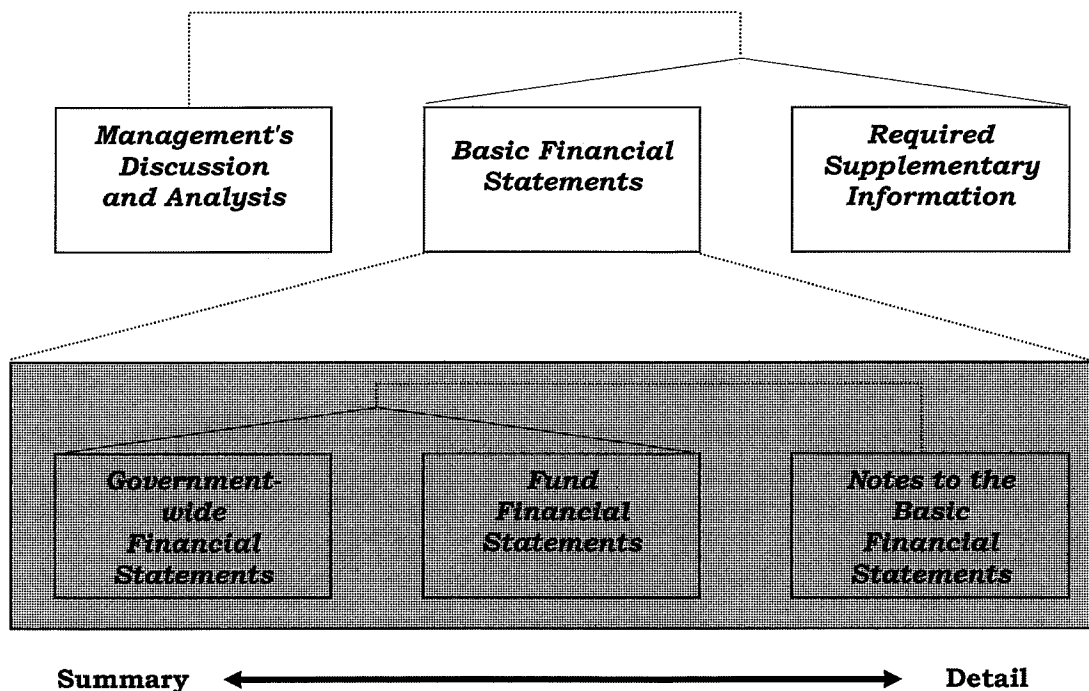


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2

Major Features of the Government-Wide and Fund Financial Statements

	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and adult education	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of revenues, expenses and changes in net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has three kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Capital Projects and Debt Service Fund.

The required financial statements for the governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.

The required financial statements for the proprietary funds include a statement of revenues, expenses and changes in net assets and a statement of cash flows.

- 3) *Fiduciary funds:* The District is the trustee, or fiduciary, for assets that belong to others. This fund is the Private-Purpose Trust fund.

- Private Purpose Trust Fund – The District accounts for outside donations for scholarships for individual students in this fund.

The District is responsible for ensuring that the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the Government-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds include the statement of fiduciary net assets and the statement of changes in fiduciary net assets.

Reconciliation between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets at June 30, 2007 compared to June 30, 2006.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2007	2006	2007	2006	2007	2006	2006-07
Current and other assets	\$ 13,078,706	13,135,260	987,325	1,275,594	14,066,031	14,410,854	-2.39%
Capital assets	19,552,628	19,538,609	349,021	244,433	19,901,649	19,783,042	0.60%
Total assets	32,631,334	32,673,869	1,336,346	1,520,027	33,967,680	34,193,896	-0.66%
Long-term obligations	8,897,788	11,859,742	0	0	8,897,788	11,859,742	-24.97%
Other liabilities	6,209,600	6,341,877	15,363	24,984	6,224,963	6,366,861	-2.23%
Total liabilities	15,107,388	18,201,619	15,363	24,984	15,122,751	18,226,603	-17.03%
Net assets:							
Invested in capital assets, net of related debt	11,804,802	11,712,190	349,021	244,433	12,153,823	11,956,623	1.65%
Restricted	1,937,001	354,041	0	0	1,937,001	354,041	447.11%
Unrestricted	3,782,143	2,406,019	971,962	1,250,610	4,754,105	3,656,629	30.01%
Total net assets	\$ 17,523,946	14,472,250	1,320,983	1,495,043	18,844,929	15,967,293	18.02%

The District's combined net assets increased by 18.02% or \$2,877,636 over the prior year. The largest portion of the District's net assets is the invested in capital assets, less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions, or enabling legislation on how they can be used. The District's restricted net assets increased \$1,582,960 or 447.11% over the prior year. The increase was primarily a result of reclassifying the Capital Projects and Debt Service fund balance from the invested in capital assets, less the related debt to the restricted net assets.

Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations without constraint established by debt covenants, enabling legislation, or the legal requirement - increased \$1,097,476 or 30.01%. This increase in unrestricted net assets was a result of the increase in the General Fund.

Figure A-4 shows the changes in net assets for the year ended June 30, 2007 compared to June 30, 2006.

Figure A-4 Changes of Net Assets							
	Governmental Activities		Business-type Activities		Total School District		Total Change
	2007	2006	2007	2006	2007	2006	2006-07
Revenues:							
Program revenues:							
Charges for services	\$ 665,635	506,628	900,478	1,353,740	1,566,113	1,860,368	-15.82%
Operating grants and contributions and restricted interest	3,482,624	3,513,896	550,289	545,490	4,032,913	4,059,386	-0.65%
Capital grants and contributions and restricted interest	231,628	169,268	0	0	231,628	169,268	36.84%
General revenues:							
Property tax	6,117,643	5,849,056	0	0	6,117,643	5,849,056	4.59%
Local option sales and service tax	1,737,452	1,425,025	0	0	1,737,452	1,425,025	21.92%
Unrestricted state grants	10,690,223	10,122,959	0	0	10,690,223	10,122,959	5.60%
Other	413,780	392,557	46,898	30,319	460,678	422,876	8.94%
Total revenues	23,338,985	21,979,389	1,497,665	1,929,549	24,836,650	23,908,938	3.88%
Program expenses:							
Governmental activities:							
Instructional	12,337,763	13,034,489	0	0	12,337,763	13,034,489	-5.35%
Support services	5,692,254	5,780,731	26,078	10,131	5,718,332	5,790,862	-1.25%
Non-instructional programs	541,631	695,083	1,645,647	1,473,257	2,187,278	2,168,340	0.87%
Other expenses	1,715,641	1,739,656	0	0	1,715,641	1,739,656	-1.38%
Total expenses	20,287,289	21,249,959	1,671,725	1,483,388	21,959,014	22,733,347	-3.41%
Changes in net assets	3,051,696	729,430	(174,060)	446,161	2,877,636	1,175,591	144.78%
Net assets beginning of year	14,472,250	13,742,820	1,495,043	1,048,882	15,967,293	14,791,702	7.95%
Net assets end of year	\$ 17,523,946	14,472,250	1,320,983	1,495,043	18,844,929	15,967,293	18.02%

In fiscal 2007, property tax, local option sales and services tax and unrestricted state grants account for 79.46% of the revenue from governmental activities while charges for service and sales and operating grants and contributions account for 96.87% of the revenue from business-type activities.

The District's total revenues were \$24,836,650 of which \$23,338,985 was for governmental activities and \$1,497,665 was for business-type activities.

As shown in Figure A-4, the District as a whole experienced a 3.88% increase in revenues and a 3.41% decrease in expenses. Unrestricted state grants increased by \$567,264 to fund increases in expenditures. The decreases in expenses were related to decreases in instructional expenses.

Governmental Activities

Revenues for governmental activities were \$23,338,985 and expenses were \$20,287,289.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2007	2006	Change 2006-07	2007	2006	Change 2006-07
Instruction	\$ 12,337,763	13,034,489	-5.35%	9,590,161	10,596,486	-9.50%
Support services	5,692,254	5,780,731	-1.53%	5,605,359	5,606,158	-0.01%
Non- instructional programs	541,631	695,083	-22.08%	(12,098)	9,533	-226.91%
Other expenses	1,715,641	1,739,656	-1.38%	723,980	847,990	-14.62%
Total	\$ 20,287,289	21,249,959	-4.53%	15,907,402	17,060,167	-6.76%

- The cost financed by users of the District's programs was \$665,635.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$3,714,252.
- The net cost of governmental activities was financed with \$6,117,643 in property tax, \$1,737,452 in local option sales and service tax, \$10,690,223 in unrestricted state grants, \$340,905 in interest income and \$72,875 in other general revenues.

Business-Type Activities

Revenues of the District's business-type activities were \$1,497,665 and expenses were \$1,671,725. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

As previously noted, the Keokuk Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$6,892,839, compared to last year's ending fund balances of \$6,893,260. However, the primary reason for the decrease was the increase in expense in the Debt Service Fund.

Governmental Fund Highlights

- The District's improving General Fund financial position is the product of many factors.
 - Total revenues were greater than total expenditures ensuring the increase in the financial position of the District.
 - In spite of the increase in revenues, the District actually received \$204,676 less in federal sources during fiscal 2007. The increases came from receiving more in local tax, tuition, other local sources and state grant sources during the year.
 - Instructional expenditures increased \$230,198 in FY07. A portion of this increase is due to the increases in the employees salaries and benefits.
- The Capital Projects fund balance increased to \$1,428,010 during the current year. Expenditures increased as construction on the high school entrances was completed. To offset some of the costs associated with the construction, the District used the \$108,881 they received from an Iowa Demonstration Construction Grant.

- The District issued \$1,842,279 in revenue bonds to refund revenue bonds that were issued in past years. An increase in expenditures allowed the Debt Service fund balance to decrease from \$1,443,494 to \$104,271.

Proprietary Fund Highlights

As discussed earlier, the School Nutrition Fund net assets decreased \$174,060. The change in net assets associated with the serving of the District's students was minimal.

BUDGETARY HIGHLIGHTS

The District's revenues were \$303,043 more than budgeted revenues, a variance of less 1.2%. The most significant variance resulted from the District receiving more in state sources than originally anticipated.

Total expenditures were less than budgeted, primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2007, the District had invested \$19,901,649, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net increase of 0.60% from last year. More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$807,825.

The original cost of the District's capital assets was \$32,514,199. Governmental funds account for \$31,946,264 with the remainder of \$567,935 in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the machinery and equipment category. The District's machinery and equipment totaled \$1,291,583 at June 30, 2007, compared to \$1,069,869 reported at June 30, 2006. This increase resulted from the current year purchases.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities		Business-type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2007	2006	2007	2006	2007	2006	2006-07
Land	\$ 902,602	902,602	0	0	902,602	902,602	0.00%
Construction in progress	109,124	125,736	0	0	109,124	125,736	-13.21%
Buildings	17,163,151	17,204,556	0	0	17,163,151	17,204,556	-0.24%
Land improvements	435,189	480,279	0	0	435,189	480,279	-9.39%
Machinery and equipment	942,562	825,436	349,021	244,433	1,291,583	1,069,869	20.72%
Total	\$ 19,552,628	19,538,609	349,021	244,433	19,901,649	19,783,042	0.60%

Long-Term Debt

At June 30, 2007, the District had long-term debt outstanding of \$8,897,788 in general obligation bonds, revenue bonds and other long-term debt. This represents a decrease of 24.97% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 6 to the financial statements.

A decrease of \$425,000 during the year leaves the District with total outstanding general obligation bonds payable of \$6,240,000 at June 30, 2007.

Principal payments totaling \$3,634,453 and an issuance of \$1,842,279 resulted in revenue bonds payable at June 30, 2007 of \$1,507,826.

At June 30, 2007, the District has a liability in compensated absences of \$162,293. Compensated absences are an accumulation of the Districts employees unused vacation days.

A net decrease of \$737,000 during the year decreased the total outstanding early retirement payable reported by the District to an ending balance of \$987,669.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total Change
	June 30, 2007	June 30, 2006	June 30, 2006-07
General obligation bonds	\$ 6,240,000	6,665,000	-6.4%
Revenue bonds	1,507,826	3,300,000	-54.31%
Early retirement	987,669	1,724,669	-42.73%
Compensated absences	162,293	170,073	-4.57%
Total	<u>\$ 8,897,788</u>	<u>11,859,742</u>	<u>-24.97%</u>

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- The District has experienced an increase in enrollment the past few years; however, the trend is not expected to continue. The October 2006 count resulted in a decrease of 34.7 students or 1.47%, which will affect the funding received by the District in the 2007-08 fiscal year.
- Funding for the District's before and after school program has been received from Federal and State Grants. The grants for this program have been completed. The future of this program is depended upon the District's ability to fund this through alternative sources.
- Low allowable growth over several years and enrollment trends impact the District's spending authority. Contractual increases and program changes cannot be made without thorough consideration of our unspent authorized budget.
- Continued budget concerns at state level will affect future projections. The District has experienced a decline in taxable valuations in recent years and has forced a shift in funding between state aid and property taxes.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Gregory Reynolds, District Board Secretary/Business Manager, Keokuk Community School District, 727 Washington Street, Keokuk, Iowa, 52632.

BASIC FINANCIAL STATEMENTS

KEOKUK COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2007

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and pooled investments	\$ 5,831,814	820,623	6,652,437
Receivables:			
Property tax:			
Delinquent	224,152	0	224,152
Succeeding year	5,971,530	0	5,971,530
Interfund	0	49,956	49,956
Accounts	4,984	113,222	118,206
Due from other governments	1,046,226	0	1,046,226
Inventories	0	3,524	3,524
Capital assets, net of accumulated depreciation (Note 5)	19,552,628	349,021	19,901,649
Total Assets	32,631,334	1,336,346	33,967,680
Liabilities			
Interfund payable	49,956	0	49,956
Accounts payable	135,143	5,805	140,948
Interest payable	23,733	0	23,733
Bond principal due and unpaid	25,000	0	25,000
Bond interest due and unpaid	4,238	0	4,238
Deferred revenue:			
Succeeding year property tax	5,971,530	0	5,971,530
Unearned revenue	0	9,558	9,558
Long-term liabilities (Note 6):			
Portion due within one year:			
General obligation bonds	435,000	0	435,000
Revenue bonds	832,430	0	832,430
Early retirement	213,882	0	213,882
Compensated absences	162,293	0	162,293
Portion due after one year:			
General obligation bonds	5,805,000	0	5,805,000
Revenue bonds	675,396	0	675,396
Early retirement	773,787	0	773,787
Total Liabilities	15,107,388	15,363	15,122,751
Net Assets			
Invested in capital assets, net of related debt	11,804,802	349,021	12,153,823
Restricted for:			
Beginning teacher mentoring	925	0	925
Salary improvement program	1	0	1
Professional development	3,471	0	3,471
Market factor	15,300	0	15,300
Non-public textbook	1,178	0	1,178
Talanted and gifted	44,203	0	44,203
Debt service	104,271	0	104,271
Capital projects	1,428,010	0	1,428,010
Physical plant and equipment levy	226,333	0	226,333
Schoolhouse 67.5	18,826	0	18,826
Other special revenue purposes	94,483	0	94,483
Unrestricted	3,782,143	971,962	4,754,105
Total Net Assets	\$ 17,523,946	1,320,983	18,844,929

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

KEOKUK COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2007

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		Total
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business-Type Activities	
Functions/Programs							
Governmental activities:							
Instruction:							
Regular instruction	\$ 7,253,607	192,510	1,954,249	0	(5,106,848)	0	(5,106,848)
Special instruction	3,100,955	29,833	135,942	0	(2,935,180)	0	(2,935,180)
Other instruction	1,983,201	435,068	0	0	(1,548,133)	0	(1,548,133)
	12,337,763	657,411	2,090,191	0	(9,590,161)	0	(9,590,161)
Support services:							
Student services	635,098	0	0	0	(635,098)	0	(635,098)
Instructional staff services	517,981	0	0	0	(517,981)	0	(517,981)
Administration services	2,225,160	0	71,480	0	(2,153,680)	0	(2,153,680)
Operation and maintenance of plant services	1,784,815	0	0	0	(1,784,815)	0	(1,784,815)
Transportation services	529,200	8,224	7,191	0	(513,785)	0	(513,785)
	5,692,254	8,224	78,671	0	(5,605,359)	0	(5,605,359)
Non-instructional program:							
Community service and education operations	541,631	0	553,729	0	12,098	0	12,098
Other expenditures:							
Facilities acquisitions	110,788	0	0	231,628	120,840	0	120,840
Long-term debt interest	353,913	0	0	0	(353,913)	0	(353,913)
AEA flowthrough	760,033	0	760,033	0	0	0	0
Depreciation (unallocated)*	490,907	0	0	0	(490,907)	0	(490,907)
	1,715,641	0	760,033	231,628	(723,980)	0	(723,980)
Total governmental activities	20,287,289	665,635	3,482,624	231,628	(15,907,402)	0	(15,907,402)
Business-Type activities:							
Support services:							
Operation and maintenance of plant services	26,078	26,078	0	0	0	0	0
Non-instructional programs:							
Food service operations	1,645,647	874,400	550,289	0	0	(220,958)	(220,958)
Total business-type activities	1,671,725	900,478	550,289	0	0	(220,958)	(220,958)
Total	\$ 21,959,014	1,566,113	4,032,913	231,628	(15,907,402)	(220,958)	(16,128,360)
General Revenues:							
Property tax levied for:							
General purposes					\$ 5,586,219	0	5,586,219
Debt services					412,232	0	412,232
Capital outlay					119,192	0	119,192
Local option sales and service tax					1,737,452	0	1,737,452
Unrestricted state grants					10,690,223	0	10,690,223
Unrestricted investment earnings					340,905	46,898	387,803
Other general revenues					72,875	0	72,875
Total general revenues					18,959,098	46,898	19,005,996
Changes in net assets					3,051,696	(174,060)	2,877,636
Net assets beginning of year					14,472,250	1,495,043	15,967,293
Net assets end of year					\$ 17,523,946	1,320,983	18,844,929

* This amount excludes the depreciation that is included in the direct expense of various programs.

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

KEOKUK COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2007

	General	Capital Projects	Debt Service	Other Nonmajor Governmental Funds	Total
Assets					
Cash and pooled investments	\$ 3,943,663	1,215,405	119,212	553,534	5,831,814
Receivables:					
Property tax					
Delinquent	177,504	0	14,097	32,551	224,152
Succeeding year	4,934,772	0	395,774	640,984	5,971,530
Interfund	0	0	200	0	200
Accounts	4,984	0	0	0	4,984
Due from other governments	825,831	220,395	0	0	1,046,226
Total Assets	\$ 9,886,754	1,435,800	529,283	1,227,069	13,078,906
Liabilities and Fund Balances					
Liabilities:					
Interfund payable	\$ 49,956	200	0	0	50,156
Accounts payable	110,260	7,590	0	17,293	135,143
Bond principal due and unpaid	0	0	25,000	0	25,000
Bond interest due and unpaid	0	0	4,238	0	4,238
Deferred revenue:					
Succeeding year property tax	4,934,772	0	395,774	640,984	5,971,530
Total liabilities	5,094,988	7,790	425,012	658,277	6,186,067
Fund balances:					
Reserved for:					
Debt Service	0	0	104,271	0	104,271
Beginning teacher mentoring	925	0	0	0	925
Salary improvement program	1	0	0	0	1
Professional development	3,471	0	0	0	3,471
Market factor	15,300	0	0	0	15,300
Non-public textbook	1,178	0	0	0	1,178
Talanted and gifted	44,203	0	0	0	44,203
Unreserved:					
General	4,726,688	0	0	0	4,726,688
Capital projects	0	1,428,010	0	0	1,428,010
Management levy	0	0	0	229,150	229,150
Student activity	0	0	0	94,483	94,483
Physical plant and equipment levy	0	0	0	226,333	226,333
Schoolhouse 67.5	0	0	0	18,826	18,826
Total fund balances	4,791,766	1,428,010	104,271	568,792	6,892,839
Total Liabilities and Fund Balances	\$ 9,886,754	1,435,800	529,283	1,227,069	13,078,906

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

KEOKUK COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2007

Total fund balances of governmental funds (page 16)	\$ 6,892,839
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in in the governmental funds.	19,552,628
Accrued interest payable in long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(23,733)
Long-term liabilities, including bonds payable, compensated absences payable, and early retirement are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(8,897,788)</u>
Net assets of governmental activites (page 14)	<u><u>\$ 17,523,946</u></u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

KEOKUK COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2007

	General	Capital Projects	Debt Service	Other Nonmajor Governmental Funds	Total
Revenues:					
Local sources:					
Local tax	\$ 4,813,973	1,737,452	412,232	891,438	7,855,095
Tuition	198,968	0	0	0	198,968
Other	379,044	49,242	53,879	572,442	1,054,607
Intermediate sources	210,708	0	0	0	210,708
State sources	12,271,755	0	358	819	12,272,932
Federal sources	1,637,794	108,881	0	0	1,746,675
Total revenues	19,512,242	1,895,575	466,469	1,464,699	23,338,985
Expenditures:					
Current:					
Instruction:					
Regular instruction	7,228,126	0	0	715,564	7,943,690
Special instruction	3,100,955	0	0	0	3,100,955
Other instruction	1,634,143	0	0	444,987	2,079,130
	11,963,224	0	0	1,160,551	13,123,775
Support services:					
Student services	657,577	0	0	0	657,577
Instructional staff services	517,981	0	0	0	517,981
Administration services	2,194,930	0	4,100	31,313	2,230,343
Operation and maintenance of plant services	1,662,626	0	0	137,096	1,799,722
Transportation services	408,201	0	0	178,569	586,770
	5,441,315	0	4,100	346,978	5,792,393
Non-instructional programs:					
Community service and education operations	541,631	0	0	0	541,631
Other expenditures:					
Facilities acquisitions	0	416,890	0	81,698	498,588
Long-term debt:					
Principal	0	0	4,059,453	0	4,059,453
Interest and fiscal charges	0	0	430,057	0	430,057
AEA flowthrough	760,033	0	0	0	760,033
	760,033	416,890	4,489,510	81,698	5,748,131
Total expenditures	18,706,203	416,890	4,493,610	1,589,227	25,205,930
Excess(deficiency) of revenues over(under) expenditures	806,039	1,478,685	(4,027,141)	(124,528)	(1,866,945)
Other financing sources(uses):					
Transfers in	0	252,413	1,098,052	0	1,350,465
Transfers out	0	(1,098,052)	(252,413)	0	(1,350,465)
Revenue bond issued	0	0	1,842,279	0	1,842,279
Sale of equipment	24,245	0	0	0	24,245
Total other financing sources(uses)	24,245	(845,639)	2,687,918	0	1,866,524
Net change in fund balances	830,284	633,046	(1,339,223)	(124,528)	(421)
Fund balance beginning of year	3,961,482	794,964	1,443,494	693,320	6,893,260
Fund balance end of year	\$ 4,791,766	1,428,010	104,271	568,792	6,892,839

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

KEOKUK COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 YEAR ENDED JUNE 30, 2007

Net change in fund balances - total governmental funds (page 18) \$ (421)

**Amounts reported for governmental activities in the
 statement of activities are different because:**

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlays expenditures, depreciation expense and loss on disposal of assets in the current year, as follows:

Capital expenditures	\$ 783,515	
Depreciation expense	(762,713)	
Loss on disposal of assets	<u>(6,783)</u>	14,019

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets. Current year repayments and issues, are as follows,

Issued	\$ (1,842,279)	
Repaid	<u>4,059,453</u>	2,217,174

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.

76,144

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental fund.

Early retirement	\$ 737,000	
Compensated absences	<u>7,780</u>	744,780

Changes in net assets of governmental activities (page 15) \$ 3,051,696

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

KEOKUK COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2007

	<u>School</u> <u>Nutrition</u>
Assets	
Cash and cash equivalents	\$ 820,623
Interfund receivable	49,956
Accounts receivable	113,222
Inventories	3,524
Capital assets, net of accumulated depreciation(Note 5)	<u>349,021</u>
Total Assets	<u>1,336,346</u>
Liabilities	
Accounts payable	5,805
Unearned revenues	<u>9,558</u>
Total Liabilities	<u>15,363</u>
Net Assets	
Invested in capital assets	349,021
Unrestricted	<u>971,962</u>
Total Net Assets	<u><u>\$ 1,320,983</u></u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

KEOKUK COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2007

	<u>School Nutrition</u>
Operating revenues:	
Local sources:	
Charges for services	<u>\$ 900,478</u>
Operating expenses:	
Support services:	
Operation and maintenance of plant services:	
Services	3,776
Supplies	<u>22,302</u>
	<u>26,078</u>
Non-instructional programs:	
Food service operations:	
Salaries	485,836
Benefits	168,708
Services	35,520
Supplies	910,471
Depreciation	<u>45,112</u>
	<u>1,645,647</u>
Total operating expenses	<u>1,671,725</u>
Operating loss	<u>(771,247)</u>
Non-operating revenues:	
State sources	9,924
Federal sources	540,365
Interest income	<u>46,898</u>
Total non-operating revenues	<u>597,187</u>
Change in net assets	(174,060)
Net assets beginning of year	<u>1,495,043</u>
Net assets end of year	<u>\$ 1,320,983</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

KEOKUK COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2007

	<u>School Nutrition</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 938,387
Cash received from miscellaneous operating activities	14,656
Cash payments to employees for services	(654,544)
Cash payments to suppliers for goods or services	(925,220)
Net cash used in operating activities	<u>(626,721)</u>
Cash flows from non-capital financing activities:	
Loan to General Fund	(49,956)
State grants received	9,924
Federal grants received	486,500
Net cash provided by non-capital financing activities	<u>446,468</u>
Cash flows from investing activities:	
Interest on investments	<u>46,898</u>
Cash flows from capital financing activities:	
Purchase of assets	<u>(149,700)</u>
Net decrease in cash and cash equivalents	(283,055)
Cash and cash equivalents at beginning of year	<u>1,103,678</u>
Cash and cash equivalents at end of year	<u>\$ 820,623</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (771,247)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	53,865
Depreciation	45,112
Decrease in inventories	1,727
Decrease in accounts receivables	53,443
Decrease in accounts payable	(8,743)
Decrease in unearned revenue	(878)
Net cash used in operating activities	<u>\$ (626,721)</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	<u>\$ 820,623</u>

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2007, the District received Federal commodities valued at \$53,865.

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

KEOKUK COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
JUNE 30, 2007

	<u>Private Purpose</u>
	<u>Trust</u>
	<u>Scholarships</u>
Assets	
Cash and pooled investments	<u>\$ 104,161</u>
Liabilities	<u>0</u>
Net Assets	
Reserved for scholarships	<u><u>\$ 104,161</u></u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

KEOKUK COMMUNITY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
YEAR ENDED JUNE 30, 2007

	<u>Private Purpose Trust Scholarships</u>
ADDITIONS:	
Local sources:	
Interest income	<u>\$ 3,637</u>
DEDUCTIONS:	
Support services:	
Scholarship awarded	<u> 3,012</u>
Change in net assets	625
Net assets beginning of year	<u>103,536</u>
Net assets end of year	<u><u>\$ 104,161</u></u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

KEOKUK COMMUNITY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2007

(1) Summary of Significant Accounting Policies

The Keokuk Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the City of Keokuk, Iowa, and the predominate agricultural territory in Lee Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Keokuk Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Keokuk Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Lee County Assessors' Conference Board.

B. Basis of Presentation

Government-wide financial statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net asset consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the Government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Capital Projects Fund is used to account for all resources used in the acquisition of capital facilities.

The Debt Service Fund is used to account for the payment of interest and principal on the District's general long-term debt.

The District reports the following major proprietary funds:

The District's proprietary fund is the School Nutrition Fund. The School Nutrition Fund is used to account for the food service operations of the District.

The District also reports a fiduciary fund which focus on net assets and changes in net assets. The District's fiduciary fund is as follows:

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements which require income earned to be used to benefit individuals through scholarship awards.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board

Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Balances

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the Government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on

January 1, 2005 assessed property valuations; is for the tax accrual period July 1, 2006 through June 30, 2007 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2006.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, machinery and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide statement of net assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 1,000
Buildings	1,000
Land improvements	1,000
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	1,000

Capital assets are depreciated using the straight line method over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Land improvements	20 years
Machinery and equipment	5-12 years

Salaries Payable - Payroll and related expenditures for annual contracts corresponding to the current school year, which is payable in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current

period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the statement of net assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Unearned Revenue - Unearned revenues are monies collected for lunches that have not yet been served. The lunch account balances will either be reimbursed or served lunches. The lunch account balances are reflected on the Statement of Net Assets in the Proprietary, School Nutrition Fund.

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2007. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

Long-term Liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the statement of net assets.

Fund Balances - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the Government-wide statement of net assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

(2) **Cash and Pooled Investments**

The District's deposits at June 30, 2007 were entirely covered by federal depository insurance or State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District had investments in the Iowa Schools Joint Investment Trust as follows:

	Amortized Cost
Diversified portfolio	<u>\$ 6,447,340</u>

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

(3) Transfers

The detail of transfers for the year ended June 30, 2007 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Capital Projects	\$ 1,098,052
Capital Projects	Debt Service	<u>252,413</u>
Total		<u>\$ 1,350,465</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

(4) Interfund Receivables and Payables

The detail of interfund receivables and payables at June 30, 2007 is as follows:

Receivable Fund	Payable Fund	Amount
Debt Service	Capital Projects	\$ 200
School Nutrition	General	<u>49,956</u>
Total		<u>\$ 50,156</u>

(5) Capital Assets

Capital assets activity for the year ended June 30, 2007 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 902,602	0	0	902,602
Construction in progress	125,736	387,800	404,412	109,124
Total capital assets not being depreciated	1,028,338	387,800	404,412	1,011,726
Capital assets being depreciated:				
Buildings	24,279,983	404,412	0	24,684,395
Land improvements	1,176,943	0	0	1,176,943
Machinery and equipment	4,730,149	395,715	52,664	5,073,200
Total capital assets being depreciated	30,187,075	800,127	52,664	30,934,538
Less accumulated depreciation for:				
Buildings	7,075,427	445,817	0	7,521,244
Land improvements	696,664	45,090	0	741,754
Machinery and equipment	3,904,713	271,806	45,881	4,130,638
Total accumulated depreciation	11,676,804	762,713	45,881	12,393,636
Total capital assets being depreciated, net	18,510,271	37,414	6,783	18,540,902
Governmental activities capital assets, net	\$ 19,538,609	425,214	411,195	19,552,628
Business-type activities:				
Machinery and equipment	\$ 418,235	149,700	0	567,935
Less accumulated depreciation	173,802	45,112	0	218,914
Business-type activities capital assets, net	\$ 244,433	104,588	0	349,021

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 121,753
Other	14,881
Support services:	
Instructional staff services	5,416
Administration services	16,026
Operation and maintenance of plant services	25,441
Transportation	88,289
	271,806
Unallocated depreciation	490,907
Total governmental activities depreciation expense	\$ 762,713
Business-type activities:	
Food services	\$ 45,112

(6) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2007 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General obligation bonds	\$ 6,665,000	0	425,000	6,240,000	435,000
Revenue bonds	3,300,000	1,842,279	3,634,453	1,507,826	832,430
Early retirement	1,724,669	0	737,000	987,669	213,882
Compensated absences	170,073	162,293	170,073	162,293	162,293
Total	\$ 11,859,742	2,004,572	4,966,526	8,897,788	1,643,605

General Obligation Bonds Payable

Details of the District's June 30, 2007 General Obligation bonds indebtedness is as follows:

Year Ending June 30,	Interest Rate	Bond issue March 24, 2003		
		Principal	Interest	Total
2008	3.00 %	\$ 435,000	223,126	658,126
2009	3.00	445,000	210,076	655,076
2010	3.25	460,000	196,726	656,726
2011	3.30	475,000	181,776	656,776
2012	3.40	490,000	166,100	656,100
2013	3.50	510,000	149,440	659,440
2014	3.60	525,000	131,590	656,590
2015	3.70	540,000	112,690	652,690
2016	3.80	555,000	92,710	647,710
2017	3.90	580,000	71,620	651,620
2018	4.00	600,000	49,000	649,000
2019	4.00	625,000	25,000	650,000
Total		\$ 6,240,000	1,609,854	7,849,854

Revenue Bonds Payable

Details of the District's June 30, 2007 revenue bonded indebtedness is as follows:

Year Ending June 30,	Bond Issue of December 14, 2006			
	Interest Rates	Principal	Interest	Total
2008	4.90	% \$ 832,430	46,253	878,683
2009	4.90	576,089	13,362	589,451
2010	4.90	99,307	1,358	100,665
Total		\$ 1,507,826	60,973	1,568,799

Early Retirement

The District offers a voluntary early retirement plan to its certified and non-certified employees. Eligible employees must be at least age fifty-five and employees must have completed ten years of continuous service to the District. Employees must complete an application which is subject to approval by the Board of Education. The early retirement incentives for each eligible employee is governed by the Master Contract between the District and the Keokuk Education Association. Early retirement benefits paid for the year ended June 30, 2007 totaled \$737,000.

(7) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2007, 2006 and 2005. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2007, 2006 and 2005 were \$691,064, \$676,351 and \$658,686, respectively, equal to the required contributions for each year.

(8) Risk Management

The District is a member in the Iowa School Employees Benefits Association (ISEBA), an Iowa Code Chapter 28E organization. ISEBA is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. The Association was formed July 1999 for the purpose of managing and funding employee benefits. The Association provides coverage and protection in the following categories: medical, dental, vision and prescription drugs. The District currently has dental insurance only through the Association.

The District's contributions, which include deficit recovery assessments, to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. District contributions to ISEBA for the year ended June 30, 2007 were \$171,336.

Members agree to continue membership in the pool for a period of not less than one full year. After such period, a member who has given 30 days prior written notice may withdraw.

The District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(9) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$760,033 for the year ended June 30, 2007 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(10) Construction Commitments

The District entered into various contract totaling \$526,000 for the High School kitchen project, weight room and track project. At June 30, 2007, \$109,124 of the contracts were completed. The remaining amounts of the contracts will be paid as work on the project progresses.

REQUIRED SUPPLEMENTARY INFORMATION

KEOKUK COMMUNITY SCHOOL DISTRICT
BUDGETARY COMPARISON OF REVENUES, EXPENDITURES AND
CHANGES IN BALANCES -
BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS
AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2007

	Governmental Fund Types Actual	Proprietary Fund Type Actual	Total Actual	Budgeted Amounts		Final to Actual Variance
				Original	Final	
Revenues:						
Local sources	\$ 9,108,670	947,376	10,056,046	10,190,011	10,190,011	(133,965)
Intermediate sources	210,708	0	210,708	250,000	250,000	(39,292)
State sources	12,272,932	9,924	12,282,856	11,898,596	11,898,596	384,260
Federal sources	1,746,675	540,365	2,287,040	2,195,000	2,195,000	92,040
Total revenues	23,338,985	1,497,665	24,836,650	24,533,607	24,533,607	303,043
Expenditures:						
Instruction	13,123,775	0	13,123,775	13,648,683	13,648,683	524,908
Support services	5,792,393	26,078	5,818,471	6,117,850	6,117,850	299,379
Non-instructional programs	541,631	1,645,647	2,187,278	2,854,000	2,854,000	666,722
Other expenditures	5,748,131	0	5,748,131	3,571,535	6,571,500	823,369
Total expenditures	25,205,930	1,671,725	26,877,655	26,192,068	29,192,033	2,314,378
Excess (deficiency) of revenues over (under) expenditures	(1,866,945)	(174,060)	(2,041,005)	(1,658,461)	(4,658,426)	2,617,421
Other financing sources, net	1,866,524	0	1,866,524	0	0	1,866,524
Excess (deficiency) of revenues and other financing sources over (under) expenditures	(421)	(174,060)	(174,481)	(1,658,461)	(4,658,426)	4,483,945
Balance beginning of year	6,893,260	1,495,043	8,388,303	7,256,363	7,256,363	1,131,940
Balance end of year	\$ 6,892,839	1,320,983	8,213,822	5,597,902	2,597,937	5,615,885

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

KEOKUK COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2007

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparison for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. The District adopted one budget amendment increasing expenditures by \$2,999,965.

OTHER SUPPLEMENTARY INFORMATION

KEOKUK COMMUNITY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2007

	Nonmajor Special Revenue Funds				
	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	School- house 67.5	Total Special Revenue Funds
Assets					
Cash and pooled investments	\$ 200,925	99,298	234,413	18,898	553,534
Receivables:					
Property tax:					
Current year delinquent	28,475	0	4,076	0	32,551
Succeeding year	525,000	0	115,984	0	640,984
Accounts	0	0	0	0	0
Accrued interest	0	0	0	0	0
Total Assets	\$ 754,400	99,298	354,473	18,898	1,227,069
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	\$ 250	4,815	12,156	72	17,293
Deferred revenue:					
Succeeding year property tax	525,000	0	115,984	0	640,984
	525,250	4,815	128,140	72	658,277
Fund balances:					
Unreserved:					
Undesignated	229,150	94,483	226,333	18,826	568,792
Total fund balances	229,150	94,483	226,333	18,826	568,792
Total Liabilities and Fund Balances	\$ 754,400	99,298	354,473	18,898	1,227,069

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

KEOKUK COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2007

	Nonmajor Special Revenue Funds				
	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	School- house 67.5	Total Special Revenue Funds
Revenues:					
Local sources:					
Local tax	\$ 772,246	0	119,192	0	891,438
Other	25,147	413,712	132,452	1,131	572,442
State sources	715	0	104	0	819
Total revenues	798,108	413,712	251,748	1,131	1,464,699
Expenditures:					
Current:					
Instruction:					
Regular instruction	715,564	0	0	0	715,564
Other instruction	0	444,987	0	0	444,987
	715,564	444,987	0	0	1,160,551
Support services:					
Administration services	31,313	0	0	0	31,313
Operation and maintenance of plant services	133,716	0	3,380	0	137,096
Transportation services	27,644	0	150,925	0	178,569
	192,673	0	154,305	0	346,978
Other expenditures:					
Facilities acquisition	0	0	77,540	4,158	81,698
Total expenditures	908,237	444,987	231,845	4,158	1,589,227
Net change in fund balances	(110,129)	(31,275)	19,903	(3,027)	(124,528)
Fund balance beginning of year	339,279	125,758	206,430	21,853	693,320
Fund balance end of year	\$ 229,150	94,483	226,333	18,826	568,792

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

KEOKUK COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2007

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
HS interest earned	\$ 119	0	67	52
HS drama	1,176	1,859	1,459	1,576
HS speech	1,455	5,758	5,633	1,580
HS show choir	361	1,517	1,123	755
HS vocal music	1,435	2,626	2,776	1,285
HS instrument music	1,464	508	638	1,334
HS winterguard	1,711	634	1,697	648
HS athletics	443	0	443	0
HS tournaments	312	22,939	23,087	164
HS booster resale	809	44,375	45,184	0
HS cross country	695	1,827	1,771	751
HS boys basketball	6,713	8,152	14,241	624
HS football	17,383	23,999	38,631	2,751
HS soccer	589	5,058	2,206	3,441
HS baseball	313	10,025	9,947	391
HS boys track	685	6,738	5,967	1,456
HS boys tennis	702	1,789	1,463	1,028
HS boys golf	283	1,195	747	731
HS boys swimming	603	610	837	376
HS wrestling	5	20,291	17,381	2,915
HS girls basketball	8,393	8,642	16,877	158
HS volleyball	3,585	6,578	9,146	1,017
HS girls soccer	1,000	3,100	2,175	1,925
HS softball	1,192	6,054	4,309	2,937
HS girls track	2,364	12,486	8,537	6,313
HS girls tennis	592	2,546	2,237	901
HS girls golf	1,009	1,236	1,699	546
HS girls swimming	260	2,225	1,560	925
HS yearbook	8,746	11,296	14,604	5,438
HS general	3,549	12,160	12,693	3,016
HS FHA	743	0	0	743
HS student newspaper	968	1,735	2,703	0
HS fallon student	1,427	1,296	80	2,643
HS lit project	1,347	0	1,347	0
HS student council	2,259	3,056	4,073	1,242
HS uniform repair	1,343	2,200	3,543	0
HS national honor society	199	1,140	1,327	12
HS french club	580	221	220	581
HS spanish club	1,209	3,130	2,461	1,878
HS class of 2007	1,322	1,193	1,600	915
HS class of 2008	3,764	7,102	7,165	3,701
HS class of 2009	1,046	3,251	1,111	3,186
HS class of 2010	250	1,294	12	1,532
HS class of 2011	0	250	0	250

KEOKUK COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2007

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
HS special education club	424	317	335	406
HS athletics	700	11,864	9,228	3,336
HS special athletics	147	0	0	147
HS weight room	5,204	0	0	5,204
HS student activity	0	16,180	16,180	0
HS concessions	1,544	68,557	66,005	4,096
HS little feather	6,263	7,791	13,627	427
HS cheerleaders	2,041	6,647	8,611	77
HS special needs friends	181	634	128	687
HS bowling	1,096	317	45	1,368
HS gaming	8	381	389	0
HS jets	291	97	0	388
HS learning center	1,502	1,341	0	2,843
HS SADD	266	317	454	129
HS teacher activity	582	101	683	0
MS vocal music	3,376	3,640	3,541	3,475
MS instrument music	757	588	240	1,105
MS cross country	0	150	0	150
MS boys basketball	0	2,530	2,244	286
MS football	0	2,356	1,990	366
MS soccer	1,500	1,000	918	1,582
MS boys track	118	1,568	1,686	0
MS wrestling	0	1,137	1,137	0
MS girls basketball	34	2,724	2,536	222
MS volleyball	838	2,476	2,427	887
MS softball	505	596	577	524
MS girls track	774	1,140	1,583	331
MS yearbook	2,647	4,140	5,865	922
MS lit project	4,501	9,616	14,117	0
MS math contests	575	50	270	355
MS SPED club	0	306	142	164
MS student athletes	0	991	262	729
MS student activities	3,333	9,740	11,925	1,148
MS cheerleaders	359	200	0	559
MS learn connects	920	0	920	0
MS int checking	16	0	16	0
MS student products	0	2,129	2,129	0
HS softball fundraiser	853	0	0	853
Total	\$ 125,758	413,712	444,987	94,483

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

KEOKUK COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN PRIVATE PURPOSE TRUST FUND,
 SCHOLARSHIP ACCOUNTS
 YEAR ENDED JUNE 30, 2007

	Balance Beginning of year	Revenues	Expend- itures	Balance End of year
Black Sims Award	\$ 522	14	0	536
Kilborne Prize	9,777	409	297	9,889
William Aldrich Trust	3,632	166	26	3,772
Elizabeth Wilson Leake Award	13,591	401	303	13,689
Maud Marshall Hassall	11,163	440	429	11,174
WM J Sigmund Memorial	8,443	328	322	8,449
Edna Sears Trust	7,195	245	300	7,140
Wilbur Erickson	6,419	242	0	6,661
Edna Meirotto (1)	10,315	332	292	10,355
Edna Meirotto (2)	10,323	349	293	10,379
Ming Chung	22,156	711	750	22,117
	<u>\$ 103,536</u>	<u>3,637</u>	<u>3,012</u>	<u>104,161</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

KEOKUK COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
 ALL GOVERNMENTAL FUND TYPES
 FOR THE LAST FOUR YEARS

	Modified Accrual Basis			
	Years Ended June 30,			
	2007	2006	2005	2004
Revenues:				
Local sources:				
Local tax	\$ 7,855,095	7,274,081	7,376,009	7,560,279
Tuition	198,968	145,239	104,514	132,977
Other	1,054,607	812,557	665,075	738,371
Intermediate sources	210,708	237,966	248,905	17,335
State sources	12,272,932	11,526,565	10,542,467	9,658,197
Federal sources	1,746,675	1,981,714	3,155,731	2,281,121
Total	<u>\$ 23,338,985</u>	<u>21,978,122</u>	<u>22,092,701</u>	<u>20,388,280</u>
Expenditures:				
Instruction:				
Regular instruction	\$ 7,943,690	7,535,015	7,564,211	7,201,553
Special instruction	3,100,955	2,937,092	2,551,755	3,174,324
Other instruction	2,079,130	1,927,481	2,020,546	1,112,618
Support services:				
Student services	657,577	743,239	697,915	715,383
Instructional staff services	517,981	522,756	420,808	421,299
Administration services	2,230,343	2,140,048	1,947,395	1,834,299
Operation and maintenance of plant services	1,799,722	1,889,550	1,814,974	1,749,993
Transportation services	586,770	598,932	419,753	440,308
Other support services	0	0	0	767
Non-instructional	541,631	695,083	916,281	828,507
Other expenditures:				
Facilities acquisitions	498,588	293,180	2,028,641	636,168
Long Term Debt:				
Principal	4,059,453	1,135,000	1,095,000	1,050,000
Interest	430,057	441,233	487,442	531,523
AEA flow-through	760,033	722,398	660,304	645,987
Total	<u>\$ 25,205,930</u>	<u>21,581,007</u>	<u>22,625,025</u>	<u>20,342,729</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

KEOKUK COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2007

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
DIRECT:			
TWENTY-FIRST CENTURY COMMUNITY LEARNING CENTERS	84.287	FY 07	\$ 595,155
INDIRECT:			
DEPARTMENT OF AGRICULTURE:			
IOWA DEPARTMENT OF EDUCATION:			
FOOD DONATIONS	10.550	FY 07	53,865
SCHOOL NUTRITION CLUSTER PROGRAMS:			
SCHOOL BREAKFAST PROGRAM	10.553	FY 07	74,979
NATIONAL SCHOOL LUNCH PROGRAM	10.555	FY 07	411,521
			486,500
DEPARTMENT OF EDUCATION:			
IOWA DEPARTMENT OF EDUCATION:			
TITLE I GRANTS TO LOCAL EDUCA- TIONAL AGENCIES	84.010	3312-G-07	546,906
TITLE I GRANTS TO LOCAL EDUCA- TIONAL AGENCIES	84.010	3312-GC-07	47,256
			594,162
SPECIAL EDUCATION-PRESCHOOL GRANT	84.173	FY 07	375
SAFE AND DRUG-FREE SCHOOLS AND COMMUNITIES - STATE GRANTS	84.186	FY 07	14,412
FUND FOR THE IMPROVEMENT OF EDUCATION	84.215	FY 07	108,881
INNOVATIVE EDUCATION PROGRAM STRATEGIES(TITLE V PROGRAM)	84.298	FY 07	4,469
ENHANCING EDUCATION THROUGH TECHNOLOGY(E2T2)	84.318	FY 06	20,060
SPECIAL EDUCATION-STATE PROGRAM IMPROVEMENT GRANTS FOR CHILDREN WITH DISABILITIES	84.323	FY 07	7,059
COMPREHENSIVE SCHOOL REFORM DEMONSTRATION	84.332A	FY 06	60,399

KEOKUK COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2007

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
DEPARTMENT OF EDUCATION (CONT):			
TITLE IIA - FEDERAL TEACHER QUALITY PROGRAM	84.367	FY 07	<u>152,595</u>
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES	84.369	FY 07	<u>15,603</u>
AREA EDUCATION AGENCY:			
SPECIAL EDUCATION - GRANTS TO STATES (PART B)	84.027	FY 07	<u>135,567</u>
VOCATIONAL EDUCATION - BASIC GRANTS TO STATES	84.048	FY 07	<u>37,937</u>
TOTAL			<u>\$ 2,287,039</u>

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the Keokuk Community School District and is presented in conformity with the accrual or modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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(a professional corporation)
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Telephone (641) 792-1910

Independent Auditor's Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements Performed in
Accordance with Government Auditing Standards

To the Board of Education of the
Keokuk Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Keokuk Community School District as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated March 26, 2008. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Keokuk Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Keokuk Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Keokuk Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Keokuk Community School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of Keokuk Community School District's financial statements that is more than inconsequential will not be prevented or detected by Keokuk Community School District's internal control. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be a material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Keokuk Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2007 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Keokuk Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the District's responses, we did not audit Keokuk Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Keokuk Community School District and other parties to whom Keokuk Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Keokuk Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


NOLTE, CORNMAN & JOHNSON, P.C.

March 26, 2008

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Independent Auditor's Report on Compliance with Requirements Applicable
to Each Major Program and Internal Control over Compliance
in Accordance with OMB Circular A-133

To the Board of Education of
Keokuk Community School District

Compliance

We have audited the compliance of Keokuk Community School District with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2007. Keokuk Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of Keokuk Community School District's management. Our responsibility is to express an opinion on Keokuk Community School District's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Keokuk Community School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Keokuk Community School District's compliance with those requirements.

In our opinion, Keokuk Community School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

Internal Control Over Compliance

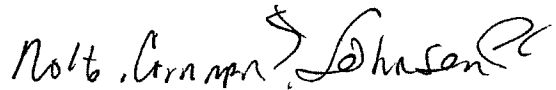
The management of Keokuk Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered Keokuk Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Keokuk Community School District's internal control over compliance.

A control deficiency in the District's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a federal program such that there is more than a remote likelihood noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiencies in internal control described in Part III of the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the District's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the District's internal control that might be significant deficiencies or material weaknesses as defined below. We did not identify any deficiencies in internal control over compliance that we consider to be a material weaknesses, as defined above.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Keokuk Community School District and other parties to whom Keokuk Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.



NOLTE, CORNMAN & JOHNSON, P.C.

March 26, 2008

KEOKUK COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007

Part I: Summary of the Independent Auditor's Results

- (a) An unqualified opinion was issued on the financial statements.
- (b) Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements, none of which are a material weakness.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) Significant deficiencies in internal control over major programs were disclosed by the audit of the financial statements, none of which are a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit did not disclose any audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major program was as follows:
 - Clustered
 - CFDA Number 10.553 - School Breakfast Program
 - CFDA Number 10.555 - National School Lunch Program
 - Individual
 - CFDA Number 84.010 - Title I - Grants to Local Education Agencies
 - CFDA Number 84.287 - Twenty-first Century Community Learning Centers
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Keokuk Community School District did not qualify as a low-risk auditee.

KEOKUK COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007

Part II: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

SIGNIFICANT DEFICIENCIES:

II-A-07 Student Activity Fund - During our audit issues arose about the properness of certain accounts or certain receipts and expenditures collected/paid from the Student Activity Fund. Inappropriate expenditures would include any expenditure more appropriate to other funds. The student activity fund shall not be used as a clearing account for any other fund. This is not an appropriate fund to use for public tax funds, trust funds, state and federal grants or aids, textbook/library book fines, fees, rents, or sales, textbook/library book purchases, sales of school supplies, curricular activities, or any other revenues or expenditures more properly included in another fund. Moneys in this fund shall be used to support only the cocurricular program defined in department of education administrative rules (298A.8). Fundraisers and donations made to the school should be recorded in the fund in which they could be expended.

Recommendation - The purpose of the Student Activity Fund is to account for financial transactions related to the cocurricular and extracurricular activities offered as a part of the education program for the students established under Iowa Administrative Code 281-12.6(1). More specific examples of these instances of questioned items and recommendations are as follows:

We noted that there were Target donations receipted into the Activity Fund. These revenues do not specify the purpose, other than instructional supplies; therefore, they should be receipted into the General fund for use in all instructional supplies/services.

We noted that when scholarships are being awarded to the student, the check is written to the student instead of the college. The donations and expenditures for scholarships should be run through the Private Purpose Trust fund instead of the Student Activity fund. The check should be written to the college instead of the student.

Field trip revenues and expenses are being receipted and expended from the Activity Fund. These transactions appear to be instructional in nature and should be receipted and subsequently expended from the General Fund.

The District should review the propriety of receipts and expenditures that are recorded in the Student Activity Fund. It would appear that some of the accounts appear to be more administratively maintained in nature, rather than maintained by a club or organization. Therefore, they need to be corrected or transferred to the proper fund where these monies can be receipted and expended.

Response - We will review the transactions in the Student Activity Accounts to determine the appropriate fund for recording the activity

Conclusion - Response accepted.

II-B-07 Receipting Procedures - We noted that sponsors of student organizations were collecting money from individuals, fundraising events and other revenue fees. These collections are turned into the office for receipting, depositing and posting only after the event or fundraising drive is completed. When the money is turned into the office there does not appear to be supporting documentation for the money collected that later could be used for reconciliation uses.

Recommendation - The district actually maintains multiple layers of receipting from, sponsors, to the building office, to the central office. When sponsors or fundraising chairpersons submit money to the office for multiple previously collected receipts, they should provide documentation of their receipts. This documentation should be used when reconciling deposits to receipts.

Response - We will review and establish procedures to appropriately document receipts from student organizations.

Conclusion - Response accepted.

II-C-07 Payroll Procedures - We noted during our audit that the District is not keeping track of hours worked for coaches who are non-certified staff.

Recommendation - In compliance with the Department of Labor requirements on wage per hour contracts, the District needs to keep track of the hours worked for non-certified staff coaches, and determine that the wage paid is in compliance with minimum wage requirements as well as any overtime issues.

Response - We now have procedures in place to track hours worked for no-certified coaching staff.

Conclusion - Response accepted.

KEOKUK COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

SIGNIFICANT DEFICIENCIES:

CFDA Number 10.553: School Breakfast Program
CFDA Number 10.555: National School Lunch Program
Federal Award Year: 2007
U.S. Department of Agriculture
Passed Through the Iowa Department of Education

III-A-07 Free and Reduced Lunch Applications - We noted during our audit that one of the free and reduced lunch applications in our testing were marked as free, but actually should have been marked as reduced.

Recommendation - The District should review the procedures in place for filing free and reduced lunch applications to ensure that the applications are filed correctly. The District should contact the Department of Education to correct the necessary reports.

Response - We have established procedures to help ensure the applications for free and reduced meals will be accurately determined.

Conclusion - Response accepted.

KEOKUK COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007

Part IV: Other Findings Related to Required Statutory Reporting

- IV-A-07 Certified Budget - District expenditures for the year ended June 30, 2007, did not exceed the amount budgeted.
- IV-B-07 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- IV-C-07 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
- IV-D-07 Business Transactions - Business transactions between the District and District officials or employees are detailed as follows:
- IV-E-07 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- IV-F-07 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.
- IV-G-07 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.
- IV-H-07 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
- IV-I-07 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely, and we noted no significant deficiencies in the amounts reported.